of the criteria outlined below:

1. **Small Projects** - Defined as projects that contain less than 30 residential rental units.

2. **High Risk** - Defined as projects that involve adaptive re-use or require extraordinarily challenging substantial rehabilitation or provide more than 50% of units for tenants with annual income of 50% or less of the area median.

DCHFA will complete a second subsidy layering review at the time the IRS Form 8609(s) is issued for the Project.

DHCD and DCHFA reserve the right, without amending this QAP, to amend the subsidy layering procedures as necessary to comply with changes in applicable Federal law or regulations, HUD guidelines or the MOU. HOME and CDBG funding when combined solely with Tax Credits do not trigger the subsidy layering review process.

Unit Cost Cap - The total development cost (total project cost minus cost of land, commercial hard construction, bridge loan interest, operating reserves, DHCD compliance monitoring fee and replacement reserves) per unit must not exceed the HUD 221 (d)(3) high cost mortgage limits by bedroom size, which will be outlined in an attachment to the Application. Projects receiving Federal historic rehabilitation tax credits will be allowed to deduct the residential portion of the historic tax credit from the project costs to allow for stricter rehabilitation standards. DHCD may, on a case-by-case basis, allow a Project receiving historic rehabilitation tax credits or participating in HUD's portfolio re-engineering program to exceed the unit cost cap. Portfolio re-engineering projects should include a copy of the project's physical condition assessment to demonstrate the potential unit cost. However, total adjusted eligible basis (before qualified census tract adjustment) will be limited to the HUD 221 (d)(3) high cost mortgage limits in any case. Affordable Assisted Living Projects are allowed an exceptional per unit cost of 120% of the HUD 221 (d) (3) high cost mortgage limits. Tax-exempt bond projects funded under Section 3 are exempt from this Section.

UNDERWRITING REVIEW

Projects meeting threshold requirements that are rated and ranked against the selection criteria will also be evaluated to determine how much LIHTC is needed. DHCD will calculate the maximum LIHTC for which projects are eligible. However, DHCD, in accordance with Section 42 of the Code, shall allocate the minimum amount of LIHTC necessary to create financial feasibility and economic viability for the project.

This determination is made by employing commonly accepted underwriting methodology (consistent with the GPM) and occurs at three points in the process: (1) at the time of application; (2) at the time of reservation; and (3) at the time the project is placed in service.

Limitation on Fees - DHCD will limit fees in the development budget according to the standards established in the GPM.

LIHTC Equity Projections - DHCD will evaluate the reasonableness of the proposed syndication value of the LIHTC based on current market conditions. Evaluation of the market will be based on current syndication proposals and information on the status of funds from various national syndication firms.

Special Target Areas - Federal law permits jurisdictions to reserve a greater amount of LIHTC than the maximum normally allowed for projects in certain areas. These areas are known as Qualified Census Tracts (QCT) and Difficult Development Areas (DDA). QCT's are areas in which 50% of the population has incomes of less than 60% of the area median or which has a poverty rate of a least 25%. A listing of QCT's for the District is available at DHCD. Difficult Development Areas (DDA) are those areas designated by HUD because of high construction, land and utility costs relative to area median income. The eligible basis for projects in these areas may be increased by as much as 30%. Higher LIHTC may be reserved where Federal law permits and where the feasibility analysis indicates the need for the additional LIHTC.

RESERVATIONS

The Reservation is a conditional commitment of LIHTC and, therefore, does not meet the definition of a binding allocation as stated in Section 42 of the IRC. Once the conditions of the Reservation Agreement have been met, the sponsor will receive a binding allocation agreement that meets all requirements as set forth in Section 42 of the IRC. Reservations will be made based on DHCD's rating and ranking of the projects based on the project selection criteria and the availability of resources, both LIHTC and other funding requested. Reservation of LIHTC Letters will be issued, by DHCD's Director, to the highest rated applicants.

Surplus Reservations - In the event that the supply of LIHTC, in a given year, exceeds the demand in the initial round, then those Surplus Credits may, at the sole discretion of the Director, be reserved in the following order of priority, without the need for an advertised competitive round. (1) to a Director's Special Initiatives program for stimulating development in any targeted area. (2) to a project(s) that received a reservation from a prior year LIHTC, that has sufficient eligible basis to qualify for additional credit and that needs additional credit in order to complete the project's funding in a manner that creates financial viability and economic feasibility. (3) for projects that are in a high state of readiness and have sufficient eligible basis and the project needs LIHTC in order to complete the project's funding in a manner that creates financial viability and economic feasibility. (4) for projects that have sufficient eligible basis and the project is located in a strategic development zone as defined in the (GPM) and the project needs LIHTC's in order to complete the project's funding in a manner that creates financial viability and economic feasibility.

Forward Reservation - Under certain conditions, a project may be eligible to receive a Reservation of LIHTC from the District's Per-Capita Credit ceiling for future years (known as a Forward Reservation). To receive a Forward Reservation, project sponsors must agree to comply with all conditions imposed by DHCD and the IRS. The following types of projects may receive Forward Reservations from future years' LIHTC's .

- **Projects Unable to Meet Deadlines** - Are project(s) that have already received Reservations and are not able to meet time schedules of the Reservation and such projects are deemed by the Director to be essential to DHCD's strategic plan or mission. In this event the previous Reservation may be voided and, at the sole discretion of the Director, a Reservation from future years may be substituted for the LIHTC reserved under the voided Reservation.

- **Insufficient LIHTC** - A Forward Reservation may be approved for a project that ranked high enough in a round of competition for an award, but for which there is insufficient remaining LIHTC's that can be allocated in the current year.

- **Multiple Year Reservations** - Where projects require more than $400,000 of annual LIHTC and/or reservations would be more appropriately staged over two or more years, DHCD may agree to reserve, subject to availability, LIHTC's from a future year(s). DHCD will determine if the benefits to the District are sufficient to warrant the issuance of a Forward Reservation. In most cases this determination will rely most heavily on the following factors: (1) the sponsors' request for LIHTC is large enough so as to eliminate the availability of LIHTC to other competitive applicants, and (2) the scope of the rehabilitation or construction is such that it is unlikely that the entire project can be "placed in service" within the time constraints imposed under the IRC.

ALLOCATIONS

Sponsors who meet the requirements of the Reservation Agreement shall receive binding allocation agreements that meet all qualifications required under Section 42 of the IRC. To qualify for a Carryover-Allocation, sponsors must incur more than 10% of the reasonably anticipated basis by the close of the calendar year in which the allocation is made and then place the project in service within two years of the date of the binding allocation. Failure to meet these requirements will result in the loss of the LIHTC for the project.

Reservation Agreements will identify a date certain by which sponsors must certify that projects have been placed in service or, at a minimum, that more than 10% of the reasonably anticipated basis has been incurred. If sponsors have not met either of these requirements, then the Reservation may be cancelled. Any LIHTC available from cancelled reservations will be awarded to other projects or carried forward in the District's unallocated pool.

Carryover Allocation Evaluation - Sponsors who have received a LIHTC reservation and have incurred more than 10% of the reasonably anticipated basis must submit an application for a Carryover Allocation from DHCD. To issue the Carryover Allocation, DHCD must receive documentation and certification concerning the costs incurred as well as evidence that all application and reservation fees have been paid. Sponsors must submit a certification from a third party attorney or certified public accountant, which certification must be acceptable to the DHCD, and which includes an itemization of the project's reasonably expected basis and the costs incurred. The application must include evidence that the restrictive covenant has been recorded and, the application must be accompanied by a check for the allocation fee.

Placed-in-Service Evaluation - At the time buildings are placed in service DHCD will undertake its final evaluation of the project to determine the amount of LIHTC needed to make the development financially feasible. Only the amount needed for financial feasibility and economic viability will be awarded. Any additional LIHTC previously allocated to projects, above and beyond this amount, will be recaptured.

Before the IRS Form 8609(s) is issued, DHCD must receive, review and approve the documentation specified below.

1. **Revised Application** – An updated application adjusting the development budget to the sources and uses reflected on the cost certification and incorporating all changes in the development team and management group.

2. **Date Project Placed in Service** - Occupancy permits and licenses or other evidence of completion satisfactory to DHCD for each building within the project.

3. **Cost Certification** - A cost certification prepared by the sponsor's attorney or certified public accountant detailing the total sources and uses of funds. (For projects insured by the Federal Housing Administration ("FHA"), the Federal cost certification may be substituted if it includes the total sources and uses of funds for the project.)

4. **Eligible Basis** - A statement of the computation of the Project's development cost that qualify as eligible cost per IRC § 42.

5. **Limited Partnership Agreement** - A copy of the executed limited partnership agreement including all attachments and exhibits executed by all parties to the agreement.

6. **Extended Use Covenant** - A copy of the document that extends and restricts the use of the property with evidence that it has been legally recorded.

7. **Allocation Fee** - The appropriate Allocation fee as described above.

MONITORING FOR COMPLIANCE

Owners are responsible for making sure that their LIHTC projects comply with all Federal requirements. DHCD is responsible for monitoring each project to make sure that owners comply with the LIHTC provisions. The compliance period is for 15 years beginning with the first taxable year of the building's credit period and is extended for an additional 15-year period by the restrictive covenant for a total of thirty (30) years. Monitoring procedures have been established by DHCD which include provisions for record-keeping and -retention, certification, review, inspection; and notification of non-compliance. These procedures are provided in detail in the DHCD LIHTC Compliance Manual (CM).

Record Keeping and Retention For each qualified low income building in the project, Owners must maintain records that provide specific information for each year of the compliance period. Failure to maintain these records or otherwise comply with the requirements as set forth in the CM may result in the issuance of IRS Form 8823 and the eventual recapture of Tax Credits. All applicants are urged to review the CM and to require that project property managers have a thorough knowledge of the requirements under the IRC and the CM. All Owners must certify that they will be able to send and receive data electronically and must provide a current electronic address.

Notification of Noncompliance - DHCD will promptly notify project owners in writing in the event that its monitoring reveals that the project is in non-compliance. This notice will provide a cure period of up to 90 days from the date of the notice during which time the owner must cause the project to come into compliance. Failure to cure a condition of noncompliance may result in recapture of the LIHTC. All incidents of noncompliance must be reported to the IRS on form 8823 notwithstanding the resolution of compliance issues. For good cause, DHCD may grant an extension of the cure period for up to an additional six months.

DEFINITIONS

The following capitalized terms shall have the meanings set forth herein unless context clearly requires a different meaning.

1. **Accessibility** means buildings used by the public, accessible to, and functional for, the physically handicapped, to go through and within their doors, without loss of function, space, or facility.

2. **An Accessible Route** means a continuous unobstructed path connecting all accessible elements and spaces in a building or facility that can be negotiated by a severely disabled person using a wheelchair and that is also safe for and usable by people with other disabilities. **Interior Accessible Routes** may include corridors, floors, ramps, elevators, lifts, and clear floor space at fixtures. **Exterior Accessible Routes** may include parking, access aisles, curb ramps, walks, ramps and lifts.

3. **Affiliate** means a corporation, partnership, joint venture, limited liability company, trust, estate, association, cooperative or other organization or entity of any nature whatsoever that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with any other person, and specifically shall include parent companies or subsidiaries.

4. **Applicable Fraction** means the fraction used to determine the Qualified Basis of the qualified low-income building, which is the smaller of the unit fraction or the floor space fraction, as defined more fully in IRC Section 42(c)(1).

5. **Applicable Percentage** means the percentage multiplied by the Project's Qualified Basis to determine the annual Tax Credit available to the Ownership Entity for each year of the Tax Credit Period and as more fully described in IRC Section 42(b).